

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name DICKINSON COUNTY LIBRARY	County DICKINSON
Fiscal Year End 12/31/2005	Opinion Date 06/08/2006	Date Audit Report Submitted to State 6/28/2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


SM
2

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☒ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) FLEURY, SINGLER & COMPANY, P.C.		Telephone Number (906)774-0833	
Street Address 301 STEPHENSON AVENUE		City IRON MOUNTAIN	State MI
		Zip 49801	
Authorizing CPA Signature 		Printed Name DAVID J KNOKE	License Number MI 1101010481

DICKINSON COUNTY LIBRARY

FINANCIAL REPORT

December 31, 2005

TABLE OF CONTENTS

	Page No.
Independent Auditor's Report	3
Management's Discussion and Analysis	4
Basic Financial Statements	
Governmental Fund Balance Sheet/Statement of Net Assets	6
Statement of Governmental Revenue, Expenditures, and Changes In Fund Balance - Statement of Activities	7
Notes to Financial Statements	8
Required Supplementary Information	
Budgetary Comparison Schedule - General Fund	16
Retirement Systems Schedule of Funding Progress - Municipal Employees' Retirement System	17

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Dickinson County Library
Iron Mountain, Michigan

We have audited the accompanying financial statements of the **DICKINSON COUNTY LIBRARY** (a component unit of the County of Dickinson) as of December 31, 2005 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the **DICKINSON COUNTY LIBRARY'S** management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **DICKINSON COUNTY LIBRARY** at December 31, 2005, and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and required supplementary information, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.


Certified Public Accountants

June 8, 2006

DICKINSON COUNTY LIBRARY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using This Annual Report

This annual report consists of three parts: *Management's Discussion and Analysis* (this section), the *Basic Financial Statements*, and *Required Supplementary Information*. The Basic Financial Statements include information that presents two different views of the Library.

- The first two columns of the financial statements include information on the Library's General and Endowment Funds under the modified accrual method. These *Fund Financial Statements* focus on current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.
- The adjustment column of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full accrual method of accounting.
- The last column presents the Library's operations on a full accrual basis which provides both long and short-term information about the Library's *overall* financial status. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Library on a longer-term view of the Library's finances.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Condensed Financial Information

The table below shows key financial information under the full accrual method in a condensed format. The amounts and totals are for all library activities, including the endowment fund.

	<u>2005</u>	<u>2004</u>
Current assets	\$ 1,344,808	\$ 1,223,387
Capital assets	728,764	742,884
Long-term assets	<u>105,492</u>	<u>106,808</u>
Total assets	2,179,064	2,073,079
Long-term liabilities	569,138	611,666
Other liabilities	<u>734,407</u>	<u>705,027</u>
Total liabilities	1,303,545	1,316,693
Net Assets		
Invested in capital assets	728,764	742,884
Restricted for donor restricted purposes	105,812	98,854
Unrestricted	<u>40,943</u>	<u>(85,352)</u>
Total net assets	<u>\$ 875,519</u>	<u>\$ 756,386</u>
Revenue		
Property taxes	\$ 647,050	\$ 580,786
Other	<u>289,335</u>	<u>296,078</u>
Total revenue	936,385	876,864
Expenses - Library services	<u>817,252</u>	<u>812,365</u>
Change in net assets	<u>\$ 119,133</u>	<u>\$ 64,499</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The Library as a Whole

- The Library's revenues increased by \$59,521 this year. The primary reason for the increase was the expiration of certain tax breaks offered to a large county manufacturing facility.
- The Library's primary source of revenue is from property taxes. For 2005, total property tax collections were \$647,050. This represents approximately 69 percent of total revenue.
- Salaries and fringe benefits are the largest overall expenditure of the Library. For 2005, this expenditure was \$525,218, representing 64 percent of the Library's total expenditures.
- Depreciation at \$105,858 is the second largest overall expenditure of the Library, representing 12 percent of the Library's total expenditures.
- Total expenditures for the entire year under the full accrual method of accounting were \$817,252.

The Library's Funds

Our analysis of the Library's General and Endowment Funds are included on pages 6 and 7 in the respective statements. The fund columns provide detailed information about the Funds on a modified accrual basis of accounting, which is a short term perspective measuring the flow of financial resources, not the Library's operations on a full accrual basis of accounting, which provides a longer term measurement of total economic resources.

The fund balance of the General Fund increased by \$96,848 for the year. This represents unspent revenue greater than expenses. The Endowment Fund increased by \$931.

Library Budgetary Highlights

Over the course of the year, the Library Board amended the budget to take into account events that occurred during the year. The most significant amendments occurred in the following areas:

The revenue budget was increased during the year due to an increase in penal fine income and increased interest rates resulting in an increase in interest income.

The maintenance budget was increased during the year as a result of one major building maintenance project that became necessary during the year.

The professional fees budget was increased due to additional audit expenses incurred to perform the audit under the GASB No. 34 Standards.

The equipment and furniture budget was increased to provide additional funds for necessary computer upgrades.

Capital Assets and Debt Administration

At the end of the fiscal year, the Library had \$728,764 invested in buildings, furniture and equipment, and books and materials. In 2005, the Library added approximately \$68,000 in new items consisting of books, various audio/visual materials, and enhancement of the music collection. The remaining capital asset additions consisted of approximately \$11,500 in equipment for the Main Library and \$12,000 in building and grounds improvement. The Library disposed of several fully depreciated computers with an original cost of approximately \$28,000 in conjunction with a planned computer upgrade.

The Library carries no long-term debt other than compensated absences and post-retirement benefits.

Millage Rate

In August of 2004, the voters of the district approved a .9 mill tax for a five-year period. Based on the current taxable value of property in the Library's district, this will generate approximately \$673,000 in tax revenue for the year ending December 31, 2006.

DICKINSON COUNTY LIBRARY**GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET ASSETS**

December 31, 2005

	Individual Library Funds		
	General Fund - Modified Accrual Basis	Endowment - Permanent Fund	Total - Modified Accrual Basis
Assets			
Cash	\$ 660,368	\$ 4,027	\$ 664,395
Taxes receivable	673,145	-	673,145
Prepaid rent	1,667	-	1,667
Prepaid insurance	5,601	-	5,601
Investments	-	105,492	105,492
Capital assets	-	-	-
Total assets	1,340,781	109,519	1,450,300
Liabilities			
Accounts payable	24,885	-	24,885
Accrued liabilities	6,644	-	6,644
Deferred revenue	673,145	-	673,145
Vested sick leave, vacation and comp time payable	-	-	-
Post-retirement benefits	-	-	-
Due within one year	-	-	-
Due after one year	-	-	-
Total liabilities	704,674	-	704,674
Fund Balance/Net Assets			
Fund balance			
Reserved for			
Restricted endowment funds	-	90,746	90,746
Computer purchases	15,066	-	15,066
Designated for			
Post-retirement benefits	115,000	-	115,000
Vested sick leave, vacation and comp time	13,697	-	13,697
Building improvements	80,000	-	80,000
Operating expenses	355,000	-	355,000
Unreserved - undesignated	57,344	18,773	76,117
Total fund balance	636,107	109,519	745,626
Total liabilities and fund balance	\$ 1,340,781		
Net assets			
Investment in capital assets			
Restricted for donor restricted purposes			
Unrestricted			
Total net assets			

The notes to financial statements are an integral part of this statement.

GASB No. 34 Adjustments (Note H)	Library as a Whole Statement of Net Assets - Full Accrual Basis
\$ -	\$ 664,395
-	673,145
-	1,667
-	5,601
-	105,492
728,764	728,764
728,764	2,179,064
-	24,885
-	6,644
-	673,145
15,093	15,093
29,733	29,733
554,045	554,045
598,871	1,303,545
(90,746)	-
(15,066)	-
(115,000)	-
(13,697)	-
(80,000)	-
(355,000)	-
(76,117)	-
(745,626)	-
728,764	728,764
105,812	105,812
40,943	40,943
\$ 875,519	\$ 875,519

DICKINSON COUNTY LIBRARY**STATEMENT OF GOVERNMENTAL REVENUE, EXPENDITURES, AND CHANGES IN
FUND BALANCE - STATEMENT OF ACTIVITIES
Year ended December 31, 2005**

	Individual Library Funds		
	General Fund - Modified Accrual Basis	Endowment - Permanent Fund	Total - Modified Accrual Basis
Revenue			
Property taxes	\$ 647,050	\$ -	\$ 647,050
Other taxes	4,115	-	4,115
State aid	28,110	-	28,110
Penal fines	171,060	-	171,060
Charges for services	13,346	-	13,346
Interest income	35,816	1,404	37,220
Donations	15,577	12,958	28,535
Other revenue	6,944	5	6,949
Total revenue	922,018	14,367	936,385
Expenditures			
Salaries and benefits	560,692	-	560,692
Materials	81,197	-	81,197
Office and library supplies	11,257	-	11,257
Postage and delivery	5,158	-	5,158
Conferences, workshops and travel	5,361	-	5,361
Mid-Peninsula state aid	11,945	-	11,945
Maintenance and utilities	72,667	1,900	74,567
Insurance	23,863	-	23,863
Automation expenses	17,796	-	17,796
North Dickinson Branch	2,692	-	2,692
Professional services	9,615	-	9,615
Programming	6,947	-	6,947
Equipment and furniture	10,549	1,018	11,567
Other equipment costs	13,101	-	13,101
Miscellaneous	2,848	-	2,848
Depreciation	-	-	-
Total expenditures	835,688	2,918	838,606
Excess of revenue over expenditures	86,330	11,449	97,779
Other financing sources (uses) operating transfers in (out)	10,518	(10,518)	-
Excess of revenues and other financing sources over expenditures and other uses/change in net assets	96,848	931	97,779
Fund balance/net assets - Beginning of year	539,259	108,588	647,847
Fund balance/net assets - End of year	\$ 636,107	\$ 109,519	\$ 745,626

The notes to financial statements are an integral part of this statement.

GASB No. 34 Adjustments (Note H)	Library as a Whole Statement of Net Assets - Full Accrual Basis
\$ -	\$ 647,050
-	4,115
-	28,110
-	171,060
-	13,346
-	37,220
-	28,535
-	6,949
-	936,385
(35,474)	525,218
(68,271)	12,926
-	11,257
-	5,158
-	5,361
-	11,945
(11,900)	62,667
-	23,863
-	17,796
-	2,692
-	9,615
-	6,947
(11,567)	-
-	13,101
-	2,848
105,858	105,858
(21,354)	817,252
(21,354)	119,133
-	-
21,354	119,133
108,539	756,386
\$ 129,893	\$ 875,519

DICKINSON COUNTY LIBRARY

NOTES TO FINANCIAL STATEMENTS

NOTE A – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the **DICKINSON COUNTY LIBRARY** conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Library:

Reporting Entity

The **DICKINSON COUNTY LIBRARY** was formed to provide reading and related materials to residents of Dickinson County, Michigan. It currently operates in three locations, a main library and two smaller branches. The main location is in Iron Mountain, Michigan and the branches are located in Norway, Michigan and in the North Dickinson School building in Felch, Michigan. The Library is a part of the County of Dickinson and the majority of its revenues are deposited with the County Treasurer. The Library is governed by a Board of Trustees who oversees its operations. The Library Board is appointed by the Dickinson County Board of Commissioners. There are no component units to be included in these financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The General and Endowment Funds are budgeted and accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period by the county treasurer. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and post retirement benefits are recorded only when payment is due. Normally, expenditures are divided between years by the recording of prepaid expenses. The prepaid expenses reported on the balance sheet represent payments made in advance for 2006 expenditures.

In addition to presenting modified accrual information, the statements combine all activities and present information for the Library as a whole, using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Library reports the following major governmental funds:

General Fund - The General Fund is the Library's primary operating fund. It accounts for all financial resources of the Library, except those required to be accounted for in another fund.

Endowment Fund - The Endowment Fund is considered a permanent fund of the Library. It accounts for gifts and donations given to the Library. The majority of these items are restricted for specific purposes by the donor. These donations become permanent endowments. The investment income generated by these funds is used to make purchases for the Library in accordance with the donors' wishes.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Financial Statement Amounts

Cash - Cash includes cash on hand, demand deposits, savings, and money market accounts.

Taxes Receivable - All property taxes receivable are shown net of an allowance for uncollectible amounts of \$1,555. Property taxes are levied on December 1st based on the taxable valuation of the property as of the preceding December 31st. Taxes are considered delinquent on March 1 of the following year. The Library's 2005 tax is collectible on February 14, 2006, and will be recognized as revenue in the year ended December 31, 2006, when the proceeds of the levy are budgeted and available for the financing of operations.

Prepaid Expenses - The prepaid expenses reported on the balance sheet represent payments made in advance for 2006 expenditures.

Investments - Investments are reported at cost, which approximates fair value. Investments consist entirely of certificates of deposit in the Endowment Fund (see Note B).

Capital Assets - Generally, capital assets are defined by the Library as assets with an initial cost of more than \$500 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on all assets is provided on a straight-line basis over the following estimated useful lives:

Buildings and improvements	10-50 years
Furniture and equipment	5-10 years
Library books and AV materials	3-7 years

The Library has a collection of artwork and artifacts, donated by area patrons, presented for public exhibition and education that is being preserved for future generations. The Library has no plans to dispose of this collection. The collection is not capitalized or depreciated as part of capital assets.

Compensated Absences (Vacation and Sick Leave) - Included in the employment agreement for the Library's personnel are allowances for sick leave and vacation. Each employee earns sick leave at the rate of one day per month with 120 days maximum accumulation. Upon retirement under the Michigan Employees Retirement System (MERS), each vested employee receives compensation equal to ½ of the unused sick leave up to a maximum of 100 days. Such payout may be taken as cash or time off at the option of the employee. Vacation pay is earned at amounts scheduled in the agreement with a maximum accumulation from the previous year of 7 days. Comp time is earned by employees who have worked overtime and have chosen to receive additional time off rather than overtime pay. All terminated employees are entitled to compensation for unused vacation and comp time. All vacation, sick, and comp time payable has been accrued and reported as a liability in the General Fund.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Financial Statement Amounts (continued)

Deferred Revenue - Income is recognized as it is measurable and available. Payments received by the local taxing authorities for taxes levied for 2005 and collected within 60 days of the end of fiscal 2005 by the local taxing authorities, but not made available to the Library until April of 2006 are considered deferred revenue as they are not yet remitted to the county and were not paid to the Library within 60 days of the end of the fiscal year.

The 2005 taxable valuation of the property subject to the Library's millage totaled approximately \$797 million, on which ad valorem taxes levied consisted of .9 mills for the Library's operating purposes. The ad valorem taxes will raise approximately \$673,000 (after tax incremental financing authority portion) for operations and are included in the financial statements as deferred revenue.

Fund Balance - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties to use for a specific purpose. It is the Library's policy to use restricted resources in the General and Endowment Funds first when qualifying expenditures are incurred. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual amounts could differ from those estimates. Significant estimates include depreciation expense, and interest rate and life expectancy assumptions for the value of retirees' health benefits.

Other Revenues - Approximately 19% of the Library revenues are the result of penal fines imposed by the district, circuit, and probate courts. The fines are imposed at the discretion of the sentencing judge and are therefore difficult to project. Because of this, the Library is typically conservative with respect to the budgeting of these revenues so as not to become economically dependent on them.

NOTE B - DEPOSITS/INVESTMENTS

Michigan compiled law section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of the purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Library's cash and investment accounts at December 31, 2005 total \$769,887. Of that amount \$218,428 was covered by federal depository insurance and \$551,459 was uninsured and uncollateralized. The Library believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Library evaluates each financial institution it deposits funds with and assesses the level of risk of each institution. Only those institutions with an acceptable risk level are used as depositories.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE C - CAPITAL ASSETS

A summary of the changes in capital assets follows:

Capital Assets Being Depreciated	Balance January 1, 2005	Additions	(Deletions)	Balance December 31, 2005
Assets not being depreciated				
Land	\$ 48,496	\$ -	\$ -	\$ 48,496
Other capital assets				
Buildings and improvements	594,937	11,900	-	606,837
Furniture and equipment	253,125	11,567	(27,894)	236,798
Library books and materials	540,866	68,271	-	609,137
Totals	1,437,424	91,738	(27,894)	1,501,268
Accumulated depreciation	(694,540)	(105,858)	27,894	(772,504)
Net book value	\$ 742,884	\$ (14,120)	\$ -	\$ 728,764

NOTE D - EMPLOYMENT RELATED DEBT

A summary of debt outstanding at the Library is as follows:

	Balance January 1, 2005	Additions	(Deletions)	Balance December 31, 2005
Compensated absences	\$ 13,697	\$ 1,396	\$ -	\$ 15,093
Post retirement benefits	620,648	-	(36,870)	583,778
Totals	\$ 634,345	\$ 1,396	\$ (36,870)	\$ 598,871

The compensated absences represent the estimated liability to be paid employees under the Library's vacation, sick and comp time policies. The Library estimates that new compensated absences time will accrue at a rate approximately equal to that used, and therefore, the outstanding balance at December 31, 2005 represents a long-term liability.

The Library is obligated under its union contract to provide employees who were hired prior to January 1, 1995, and retire under the MERS system health insurance coverage upon their retirement. A liability of \$583,778 has been included in the General Fund liabilities to reflect the present value of the monthly health insurance benefits for the seven currently retired employees and the six active employees whose contracts include post-retirement health coverage. This liability was calculated using current insurance costs, an interest rate of 6.17%, and actuarially determined life expectancy tables.

NOTE E - BUDGET INFORMATION

The annual budget is prepared by Library management and adopted by the Library Board of Trustees. Subsequent amendments are approved by the Board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America. During the current year, the budget was amended on several occasions, and there were no expenditures in excess of the amounts budgeted.

The General Fund budget has been approved on a functional basis. A comparison of actual results of operations to the General Fund budget as adopted by the Library Board is included in the required supplementary information.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE F - RISK MANAGEMENT

The Library is exposed to various risks related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters.

The Library belongs to the Michigan Municipal Risk Management Authority (MMRMA) which is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to Michigan cities, counties, townships, and special purpose governments. The Michigan Municipal Risk Management Authority is a separate legal and administrative entity.

The Library is responsible for paying all losses including damages, loss adjustment expenses and defense costs for each occurrence that falls within the Library self-insured retention (SIR). After the Library has paid the SIR, the MMRMA will be responsible for paying losses including damages, loss adjustment expense and defense costs.

If a covered loss exceeds the MMRMA's limits, all further payments for such loss are the sole obligation of the Library. If for any reason, the MMRMA's resources available to pay losses are depleted, the payment of all unpaid losses of the Library is the sole obligation of the Library.

NOTE G - DEFINED BENEFIT PENSION PLAN

Plan Description – The Library's defined benefit pension plan provides retirement benefits to plan members. The Plan is affiliated with the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer pension plan administered by Gabriel, Roeder, Smith and Company. Act No. 427 of the Public Acts of 1984, as amended, and the Constitution of the State of Michigan assign the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; for the Plan, that authority rests with Dickinson County. Gabriel, Roeder, Smith and Company issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to Gabriel, Roeder, Smith and Company, One Towne Square, Southfield, Michigan 48076 or by calling (248)799-9000.

Funding Policy – The Library is required to contribute at an actuarially determined rate; the current rate for 2005 was 14.86% of annual covered payroll. The contribution requirements of the Library are established and may be amended by the MERS Board of Trustees.

Actuarial valuations are performed annually. Retirement benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Memberships of the plan are as follows:

Active members	14
Retirees and beneficiaries currently receiving benefits	5
Terminated plan members entitled to but not yet receiving benefits	<u>1</u>
Total	<u>20</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Annual Pension Cost – For the year ended December 31, 2005, the Library's annual pension cost of \$46,580 for the Plan was equal to the Library's required and actual contributions. The required contribution was determined as part of the December 31, 2004, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) an 8% investment rate of return (net of administrative expenses) (b) projected salary increases of 4.5% per year, and an additional projected salary increase ranging from 0.0% to 8.40% per year. The actuarial value of the Plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The Plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2005, was 30 years.

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Contributed	Percent of APC Obligation	Net Pension
December 31, 2002	\$ 34,144	\$ 34,144	100%	\$ -
December 31, 2003	42,317	42,317	100%	-
December 31, 2004	50,187	50,187	100%	-

NOTE H - RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Total fund balance and the net change in fund balance of the Library's General Fund differs from net assets and change in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures, and change in fund balance. The following are reconciliations of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total fund balance - modified accrual basis	\$ 745,626
Amounts reported in the Statement of Net Assets are different because	
Capital assets are not financial resources, and are not reported in the fund	728,764
Compensated absences are included as a liability	(15,093)
Post-retirement benefits are included as a liability	(583,778)
Net assets of General Fund - full accrual basis	\$ 875,519
Net changes in fund balances - modified accrual basis	\$ 97,779
Amounts reported in the Statement of Activities are different because	
Capital outlays are reported as expenditures in the Statement of Revenue, Expenditures, and Changes in Fund Balance; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation	
Equipment	11,567
Building and land improvements	11,900
Library books and materials	68,271
Depreciation	(105,858)
Increase in the accrual for compensated absences reported as an expenditure in the Statement of Activities, but not in the fund statement	(1,396)
Decrease in the accrual for post-retirement benefits reported as an expenditure in the Statement of Activities, but not in the fund statement	36,870
Changes in net assets of General Fund - full accrual basis	\$ 119,133

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE I - LABOR SUBJECT TO COLLECTIVE BARGAINING AGREEMENT

Most of the Library's employees are members of a local chapter of the American Federation of State, County and Municipal Employees, AFL-CIO. The current contract was approved on July 12, 2005 and will expire on December 31, 2006.

**REQUIRED
SUPPLEMENTARY
INFORMATION**

DICKINSON COUNTY LIBRARY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
Year ended December 31, 2005

	Originally Adopted Budget	Final Amended Budget	Actual Balances	Variance Favorable (Unfavorable)
Revenue				
Property taxes	\$ 654,901	\$ 647,050	\$ 647,050	\$ -
Other taxes	2,820	4,110	4,115	5
State aid	32,680	28,105	28,110	5
Penal fines	140,000	171,060	171,060	-
Charges for services	15,000	13,340	13,347	7
Interest income	20,000	35,800	35,816	16
Donations	14,000	16,796	16,802	6
Endowment income	1,000	10,515	10,518	3
Other revenue	8,000	5,700	5,718	18
Total revenue	888,401	932,476	932,536	60
Expenditures				
Salaries and benefits	583,200	584,555	560,692	23,863
Materials	94,150	94,300	81,197	13,103
Office and library supply	13,800	13,800	11,257	2,543
Postage and delivery	7,500	7,000	5,158	1,842
Conferences, workshops and travel	4,500	6,250	5,361	889
Mid-Peninsula state aid	12,000	12,000	11,945	55
Maintenance and utilities	65,900	78,250	72,667	5,583
Insurance	28,700	28,700	23,863	4,837
Automation expenses	17,600	18,000	17,796	204
North Dickinson Branch	5,000	6,000	2,692	3,308
Professional services	6,000	10,500	9,615	885
Programming	6,000	6,950	6,947	3
Equipment and furniture	17,850	23,000	18,431	4,569
Equipment service contracts	5,500	6,000	5,219	781
Miscellaneous	2,500	3,724	2,848	876
Post retirement benefits	4,700	11,000	-	11,000
Capital outlay	10,000	22,000	-	22,000
Contingencies	3,501	5,101	-	5,101
Total expenditures	888,401	937,130	835,688	101,442
Revenue over (under) expenditures	-	(4,654)	96,848	101,502
Fund Balance -				
Beginning of year	539,259	539,259	539,259	-
Fund Balance -				
End of year	<u>\$ 539,259</u>	<u>\$ 534,605</u>	<u>\$ 636,107</u>	<u>\$ 101,502</u>

DICKINSON COUNTY LIBRARY
REQUIRED SUPPLEMENTARY INFORMATION
RETIREMENT SYSTEMS SCHEDULE OF FUNDING PROGRESS
MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b-a)/c)
12/31/01	\$ 1,044,242	\$ 1,191,362	\$ 147,120	88%	\$ 324,087	45%
12/31/02	1,085,103	1,319,348	234,245	82%	306,071	77%
12/31/03	1,167,380	1,412,651	245,271	83%	321,120	76%
12/31/04	1,249,492	1,430,756	181,264	87%	340,137	53%

RETIREMENT SYSTEMS SCHEDULE OF EMPLOYER CONTRIBUTIONS
MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

Year Ended December 31	Annual Required Contribution	Actual Contribution	Percent Contributed
2001	\$ 36,568	\$ 36,568	100%
2002	34,144	34,144	100%
2003	42,317	42,317	100%
2004	50,187	50,187	100%

The information presented above was determined as part of the actuarial valuations at the date indicated. Additional information as of December 31, 2004, the latest actuarial valuation, follows:

Actuarial cost method	Entry age
Amortization method	Level percent of payroll
Amortization period (perpetual)	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.00%
Projected salary increases *	4.50%
*includes inflation at	4.50%
Additional salary increases attributable to seniority/merit	0% to 8.40%

June 8, 2006

Board of Trustees
Dickinson County Library
Iron Mountain, MI

In planning and performing our audit of the financial statements of the **DICKINSON COUNTY LIBRARY** for the year ended December 31, 2005, we considered the Library's internal control structure to determine our audit procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

Our audit found the Library to have a sound internal control system over the majority of cash receipts and disbursements. However, as a result of our audit, we offer the following observations and comments for your consideration:

General Ledger System

We recommend that a system be implemented to eliminate discrepancies in the posting of accounts between the manual cash receipts and disbursements ledgers and the computerized general ledger. This will help the staff to realize that they can rely on the computerized general ledger system more fully. The capability is there, the staff is trained and the system is in use, however, not to its full extent. Full integration and reliance on the system will increase internal control and operating efficiency of the library.

Budget

Public Act 621 requires that the board hold a public hearing prior to the final approval of the budget. Although the budget was approved at an open meeting, no specifically designated public hearing was held. The board should be sure to hold public hearings before approving the annual budget in the future.

This report is intended solely for the information and use of the Board and Directors of management.

We wish to acknowledge the excellent cooperation we received from the staff of the **DICKINSON COUNTY LIBRARY**. If you have any questions or concerns, please feel free to contact us.

Very truly yours,


Certified Public Accountants

/jks